



**TESTIMONY IN SUPPORT OF HOUSE BILL 5192
TO PROTECT THE PUBLIC INTEREST BY AMENDING MICHIGAN'S ACCOUNTANCY STATUTE'S
DEFINITION OF "ATTEST"**

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Mr. Chairman, thank you for the opportunity to testify before you and your committee today. On behalf of the more than 18,000 members of the MICPA, representing every corner of Michigan's economic marketplace, I am here to ask for your support of House Bill 5192, a measure to revise the definition of "attest" in Michigan's accountancy statute.

Both the American Institute of CPAs (AICPA) and the National Association of State Boards of Accountancy (NASBA) have jointly called for states to pass revised attest language, as provided in the newest edition of the state model act they co-write, the Uniform Accountancy Act. I ask that you act quickly to pass this legislation in order to protect the public interest.

Attest services are unique in our state statute. While CPAs perform a broad range of services for the public that other individuals also can perform, attest services are a set of protected services that can only be performed by a licensed CPA operating within a licensed CPA firm.

When the definition of attest was first put into our accountancy statute, lawmakers realized that, just as only doctors should practice medicine, and only lawyers should practice law, certain professional services should only be provided by CPAs. The public relies on these protections. They need to know that when they engage a professional for these attest services that the professional has the right degree of expertise, education, and regulatory oversight – a combination only available from a CPA, operating within a CPA firm.

First and foremost, it is important to note that the bar to become a CPA is very high. All CPAs must pass what are commonly known as the 3 Es – Education, Experience, and Exam. CPAs must have a baccalaureate degree with 150 hours of education, they must have at least one year of relevant professional experience, and they must pass the rigorous Uniform CPA Examination. Upon completion of these three requirements, only then, can CPAs obtain a license to practice in our state.

In addition to the 3 Es, CPAs are also subject to on-going and extensive continuing education requirements; and must comply with an extensive and detailed Professional Code of Conduct.

Equally important, CPAs are subject to oversight and potential sanction by the Michigan Board of Accountancy under LARA's umbrella. This key protection ensures that the profession is appropriately regulated by the State and the public can further expect a guarantee of associated quality.

Furthermore, there are unique and important benefits to having certain services provided within a licensed CPA firm. CPA firms, like individual CPAs, are also subject to oversight by the Michigan Board of

Accountancy. The CPA firms are subject to a peer review program where other firms examine their work on a regular basis.

By the very nature of their structures, firms have controls over quality, protections, and processes to ensure quality control and reliability. CPA firms licensed in Michigan must also be owned by at least 51% licensed CPAs, ensuring the licensed CPA partners are highly vested in the success and reputation of the firm's work. All of these benefits, together, provide extra protections to the public when attest services are performed within a CPA firm as required.

The scope of protected attest services is actually relatively limited, because the bar for meriting inclusion is high. Again – these are the services that can only be performed by a licensed CPA in a licensed CPA firm. Attest services, as currently defined under Michigan statute, encompass:

- Audits of financial statements and other engagements performed under the American Institute of CPAs, or AICPA's, Statements on Auditing Standards (SAS);
- Reviews of financial statements performed under the AICPA's Statement on Standards for Accounting and Review Standards (SSARS);
- Examinations of prospective financial information performed under the AICPA's Statement on Standards for Attestation Engagements (SSAEs); and
- Engagements performed pursuant to the Public Company Accounting Oversight Board (PCAOB), the federal regulator of auditors of publicly traded companies.

Because the public and other third parties are relying on the attested information in these four categories, it is particularly important that end users of the information know that the engagement was performed by a licensed CPA.

The Michigan Legislature and legislative bodies in 54 other licensing jurisdictions previously have decided that not just anyone should be able to hang out a shingle and start offering to perform these services. It is not in the public interest. We, as a society, do not allow just anyone in our state to start performing a surgery on a patient or to draft complex legal contracts for a company. Indeed, implicit in attest reports is an expectation that the work was performed by a CPA. Clients know this and understand the value proposition associated with it.

As you may have noted, with the exception of those engagements performed pursuant to the PCAOB, all of the other engagements protected under our state's attest definition are engagements performed under standards developed by the American Institute of CPAs, or AICPA. The AICPA is the profession's largest professional organization, with over 396,000 members globally. The AICPA's professional attest standards are developed by experts through rigorous review and discussion and they are meant to be performed only by those who have the appropriate technical expertise and experience to perform them. It is also important that the public know that, in those cases where an attest engagement may be performed poorly, our state Board of Accountancy can and will step in to protect the public who relied on that work.

A few moments ago, I mentioned that the bar for inclusion under the definition of attest services is quite high. You may be asking then: what has changed recently that requires that the legislature go back and revisit the definition? Broadly speaking, there have been two major changes that have necessitated a review of the scope of the definition.

1. **SAS 70, Reports on Service Organization Controls (aka SOC Reports), was reissued as SSAE 16 by the AICPA's Auditing Standards Board (ASB).** On June 15, 2011, the ASB reissued this particular standard and determined that it more accurately fits within the Statement on Standards for Attestation Engagements, or SSAEs, rather than the Statement on Auditing Standards. This technical change had an unintended impact on our state law. While all SAS engagements are covered under our state's definition of attest, only examinations of prospective financial information under the SSAEs are covered. Now that SOC engagements are performed under the SSAEs, they have fallen out of our definition of attest. Therefore, unless the definition is changed, anyone can do this work and that was not what our lawmakers intended.

We must fix this situation so that it doesn't happen again. Should the AICPA potentially come to the conclusion that other engagements are more appropriately performed under the SSAEs, we would be back in the same situation where an attest engagement would no longer be limited in who can perform it and the public would be at risk. In order to ensure that the public is protected, the state statute should be amended so that all engagements performed pursuant to the SSAEs are covered – not just examinations of prospective financial information. This would safeguard against this type of issue occurring again.

2. **The scope of attest services has been changing over the past decade.**

The marketplace has been changing rapidly and our original laws did not contemplate this. Increasingly, clients are asking for attest services to be performed on not just financial statements, but also on a whole host of new types of engagements related to security and privacy controls, sustainability, greenhouse gases, eXtensible Business Reporting Language (XBRL) and many other subject matters.

While CPAs are able and willing to perform these services, others in the marketplace without the same credentials, experience, and regulation are also offering these services and they are using the CPA profession's standards as written under the SSAEs. This is harmful to the public and the legislation before you was developed to stop this practice.

Now, let me elaborate more fully on an important point as you look at revising the definition: the MICPA fully supports competition in the marketplace. We believe it is a key to our free market economy. Non-CPAs should be able to provide their lawful services to the public and we would not seek to stop them. However, they should not be allowed to use CPA professional standards when they perform engagements. The public rightly assumes that the SSAEs, written by and for CPAs, are gold star standards and not just anyone is qualified nor should be allowed to use them. They also assume that our state Board of Accountancy will monitor these engagements, but this is not the case if others in the market are using CPA profession standards.

If others in the marketplace want to provide similar non-restricted services, they need to develop their own standards or find generalized standards not unique to the CPA profession. Clients can then decide whom they trust to perform these services – and utilizing which standards.

Mr. Chairman, I want to thank you for your time today. Also, I want to thank you for your leadership on accounting and public protection issues. Our profession is united in our commitment to protecting the public and to ensuring that attest engagements performed by CPAs in CPA firms are of the utmost

quality and value. Please know that the MICPA is ready to assist you however we can in fixing this problem.

